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***Thunderbird International Business Review* 2017, 59(3), 255-261.**

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Date deposited:

15/02/2018

Embargo release date:

11 April 2019

Emerging market firms venturing into advanced economies: The role of context

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Abstract

The socio-cultural, economic, political and institutional differences between countries increase the uncertainty and complexity in the highly competitive international business context. In addition, the global economic gravity shift from the “West-Leads-East” to “West-Meets-East” in the recent decades requires firms in both advanced economies and emerging markets to seek for sustainable solutions through collaborations across geographical boundaries. A novel collaborative partnership may contribute to building a stable, resilient and sustainable world economy by leveraging on the resources and capabilities of firms from both advanced economies and emerging markets. This paper has three general objectives. First, we seek to show that context has been a long-standing issue in management, organization and international business research, and provide an overview of the issues that informed and motivated this special issue. Second, we highlight the key insights and contributions of the papers included in this special issue by revealing the theoretical underpinnings and methodological approaches. Finally, we outline a future research agenda on emerging market firms venturing into advanced economies that carries the potential to advance international business and management studies.

Introduction

Globalization draws intensive attention from scholars, businesses and policymakers in today’s uncertain and turbulent environment. The socio-cultural, economic, political and institutional differences between countries increase the uncertainty and complexity in the highly competitive international business context. In addition, the global economic gravity shift from the “West-Leads-East” to “West-Meets-East” (Barkema, Chen, George, Luo, & Tsui, 2015) in the recent decades requires firms in both advanced economies and emerging markets to seek for sustainable solutions through collaborations across geographical boundaries. A novel collaborative partnership may contribute to building a stable, resilient and sustainable world economy by leveraging on the resources and capabilities of firms from both advanced economies and emerging markets.

Increasingly, emerging market firms are spreading their wings in advanced economies. This phenomenon has received considerable attention from both academics and practitioners (Atsmon, Kloss, & Smit, 2012; Liu & Deng, 2014; Liu & Woywode, 2011). Take Chinese overseas acquisitions in Europe as an example. Recent trends show that Chinese overseas acquisitions increased dramatically, with Germany becoming the top destination for Chinese investment in Europe. In the first half of 2016, Chinese investors acquired 37 German companies, with a total transaction value of USD 10.8B, more than all previous years combined (FT.com, 2016). Therefore, we suggest a nuanced and contextual understanding of the relationships and interactions between firms from emerging and advanced economies, especially when emerging market firms venturing into advanced economies may shed some revealing lights on dealing with global challenges and exploiting opportunities.

This paper has three general objectives. First, we seek to show that context has been a long-standing issue in management, organization and international business research, and provide an overview of the issues that informed and motivated this special issue. Second, we highlight the key insights and contributions of the papers included in this special issue by revealing the theoretical underpinnings and methodological approaches. Finally, we outline a future research agenda on emerging market firms venturing into advanced economies that carries the potential to advance international business and management studies.

The role of context

Context has been a long-standing issue in management, organization and international business research (Child, 2009; Meyer & Peng, 2016). As acknowledged, we subscribe to the view that context can serve the role to contribute to theory development, methodological advancement and empirical refinement. Management scholarship is urged to appreciate and utilize context for theory development (George, 2014; Whetten, 2009), because the assumptions and boundary conditions of existing theories need to be questioned, challenged, or/and modified when the phenomenon under investigation is in a new or/and different context. As for case study methodology, context can assist in articulating the causal relationships in the theorizing efforts (Tsang, 2013). Context matters a great deal for international business research and practices, such as the multiple embeddedness of multinational enterprises and local contexts (Meyer, Mudambi, & Narula, 2011).

Furthermore, paying attention to context is particularly salient and useful in emerging economies research (Meyer, 2015). Linking theory and context can advance strategy research in emerging economies (Xu & Meyer, 2013). Despite under the same umbrella concept of emerging economies (Hoskisson, Wright, Filatotchev, & Peng, 2013), yet, emerging markets can vary on most significant dimensions—institutionally, economically, culturally, socially, technologically (Teagarden, 2013). Hence, there is the need to delineate and specify the contexts and contextual factors with respect to emerging markets firms venturing into advanced economies.

Despite the progress that has been made by the field, there are still a number of challenges in studying contexts. First, context can have multiple dimensions. Delineating the multiple dimensions of context necessitates clarity about which dimension of context matters and how in a present situation. Building upon the recent development from entrepreneurship research (Zahra, Wright, & Abdelgawad, 2014), context can include *space, time, practice and change*. Space refers to the geographical considerations where the emerging market firms venturing into advanced economies. Time relates to the developmental and dynamic perspective while emphasizing history, sequencing, and critical events. Practice refers to the event in a domain of related ideas, values and modes. This practice dimension reconciles the emphasis on culture and institutions. Change relates to process, dynamics, and related constructions of new meanings. For example, the change stemming from emerging market firms acquisitions in advanced economies can influence employee retention, knowledge transfer, and post-acquisition integration management (Liu & Woywode, 2013).

Culture constitutes as one important dimension of context. For example, favours are a medium of exchange for social capital and prevalent in business in emerging markets (Teagarden & Schotter, 2013). However, such business practices might not be available in advanced economies which might become obstacles for emerging markets firms, or induce

misunderstanding for Western managers. On the other hand, cultural proximity may assist constructing and implementing new management practices. One recent study on Chinese firms in Africa found that the adjacent meanings between Chinese Confucianism and African Ubuntu from a cultural perspective can help Chinese managers to manage local African employees to enhance their commitment to organizations and work attitude (Xing, Liu, Tarba, & Cooper, 2016b). Therefore, delineating the pertinent dimension of context can facilitate a better utilization of context in developing theory and informing management practice.

Second, the interplay and interactions between different dimensions of context awaits further scholarly inquiry. One approach that may help to capture the complexities of context is to consider the combinations of different dimensions of context. For instance, when studying the globalization of Chinese firms, it is useful to study the contextual combinations of institutional maturity and political stability by taking into account both home and host country perspectives (Child & Marinova, 2014). Related, the configuration approach has been suggested to study context in entrepreneurial innovation (Autio, Kenney, Mustar, Siegel, & Wright, 2014). Context can influence both managers and organizations across multiple levels. For example, international experience can be general or country-specific that affects MNEs' ownership strategy (wholly owned or joint venture) across host contexts (Li & Meyer, 2009). Hence, a multi-level approach might be useful to capture the complexities of context.

A brief introduction to the papers in this special issue

In this section, we will provide an introduction to the papers in this special issue by discussing theoretical underpinnings, methodologies approaches, and contributions. The paper by Deng and Yang used a panel data of cross-border mergers and acquisitions (CBMAs) by Chinese firms in developed markets. Theoretically, this paper combined OLI (ownership, location, and internalization) paradigm and institutional theory. This study investigated both firm-level and institutional-level variables that can affect the number of Chinese CBMAs in the developed markets. Interestingly, this paper found that some significant factors to explain Chinese overall outward foreign direct investment (OFDI) are not necessarily applicable to explain Chinese CBMAs. This finding elucidates that the unique context of Chinese CBMAs.

The paper by Liou, Elstrand, and Chao continued with the institutional context by examining human capital development and emerging market firms' ownership strategy. This paper examined a sample of EMNCs' cross-border M&As in the U.S. between 2005 and 2011. Institutional distance between the host and home institutional environments is negatively associated with the foreign acquirer's ownership position. This study found that firms originating in emerging countries with lower levels of human capital development have more urgency in seeking ownership control in advanced economies, and are less influenced by the negative association of institutional distance in their ownership strategy. This paper by incorporating human capital development into institutional distance can generate a nuanced understanding on emerging market firms' ownership strategy in advanced economies.

The paper by Marchand examined on acquisitions in France by multinationals from 13 countries. This study focused on the post acquisition integration management styles by adopting a comparative international management perspective. By building upon the light-touch integration framework (Liu & Woywode, 2013), this paper contributes to gaining a nuanced and contextualized understanding of commonalities and differences among

emerging multinationals in the way they manage their acquisitions in advanced economies. This study also explored the antecedents of integration approaches by highlighting the influence of administrative heritage and contextual factors on these emerging market firms' international management practices. This approach relates to the practice dimension of context.

The paper by Zhang, He, and van Gorp examined the effect of economic freedom on overseas acquisition completion of emerging market firms in advanced economies. Using a data set of 5,174 cross-border acquisition deals from ten major emerging markets during 1985-2011, this study helps to obtain an enhanced understanding of economic freedom of the acquirers' countries, of the acquirers' parent and of the target and its influence on M&A deal completion. The economic freedom varies across country contexts that in turn can influence the likelihood of overseas acquisition completion emerging market firms in advanced economies.

The paper by Stokes and colleagues studied the higher education (HE) sector, a sector that yet received less attention in the domain of international business. By conducting comparative case studies of HE organizations from emerging markets venturing into the HE sector in London, UK, this paper examined the contexts and complexities in relation to collaborative partnerships. The organizational ambidexterity theoretical lens was used to identify the challenges and unfulfilled reverse innovation in such collaborative partnerships. This study highlighted the context of higher education sector when emerging markets organizations venturing into advanced economies. This HE context complements to the dominant business sectors studied by international business and management scholars.

The paper by Yang and colleagues investigated the determinants of reverse knowledge transfer (RKT) in Chinese enterprises operating in the United States. Theoretically, this study utilized organizational evolution and learning. By combining quantitative survey with qualitative case studies, this paper found that strategic asset-seeking motivations and headquarter (HQ) control are positively related to RKT, whereas subsidiary age is negatively related to RKT. This study belongs to one of the few studies that examined RKT in the context of emerging market firms venturing into advanced economies.

The paper by Chen examined the role of Guanxi when Chinese firms entering and expanding in developed markets. This study used qualitative interviews with 29 managers from 17 Chinese B2B firms internationalizing to Europe. From a process perspective, this paper found that the priori existing Guanxi of Chinese managers was largely irrelevant for initially entering the European market. However, Chinese firms can overcome liability of outsidership by building new Guanxi-like relationships with their Western business network partners after a certain period of time. Such a process perspective resonates with the temporal dimension of context.

The case study by Ge, Stringer, and Ding investigated the acquisition of PGG Wrightson and Fisher & Paykel by two Chinese firms Agria and Haier in New Zealand. This paper combined the strategic asset seeking and asset augmentation theoretical perspectives. This study suggested that Chinese firms' acquisition of strategic assets can strengthen their position in the Chinese market as well as facilitate building and sustaining a global position. New Zealand is a less studied country context in the research on emerging market firms venturing into advanced economies.

Related, another country context that received relatively less attention is Ireland. The paper by Brennan, Collison and Rios-Morales used a multi-level, in-depth analysis of Chinese investment in Ireland through semi-structured interviews and case studies. This study found that Ireland's clusters and excellence in industries such as aviation leasing, technology, gaming and dairy can influence the location decision of Chinese firms. Furthermore, the institutional-level government-to-government relationships serve as the important inter-institutional linkages as a determinant of Chinese OFDI. The industry context and multi-level analysis can help to understand the idiosyncratic nature of Chinese investment in small advanced economies, such as Ireland.

We also have chosen two papers that examined the firms from India. The conceptual paper by Yahiaoui and colleagues examined the influence of culture on ambidextrous leadership. Five propositions are developed covering charisma, inspirational motivation, intellectual stimulation, individualized consideration, and Indian ambidextrous leadership. Cultural variables characterize Indian ambidextrous leadership. The paper by Parasarathy, Momaya, and Jha analyzed firm-level secondary data of two Indian MNEs, Motherson Sumi Systems Limited and Rain Industries Limited. This study suggested a framework of multiple contextual settings to understand the internationalization of Indian firms. Also, this study emphasized the influence of firm-level entrepreneurial orientation and international orientation, when emerging market firms venturing into advanced economies via cross-border acquisitions.

Future research direction

Our focus on the role of context relates to the argument of situational strength that appreciates the particular situation under investigation (Meyer, Dalal, & Hermida, 2010). By considering the situation and contexts seriously, future research endeavors may gain a nuanced understanding of emerging market firms venturing into advanced economies. Furthermore, we identify in this research stream some fruitful future research directions: (1) adopting an inclusive view on firms in a broader context; (2) incorporating context to tackle societal grand challenges; (3) combining context and micro-foundations of strategy and international management; (4) capturing the complexities and dynamics of context.

First, we suggest future research take an inclusive view on firms. The theory of firm essentially focuses on the economic consequences of organizational behaviors and firm strategy. Amid the increasing importance of sustainability, accountability and social responsibility, firm needs to take into account the broader context, especially its contribution to the local communities and the society at large. The attempt to establish a theory of business (Donaldson & Walsh, 2015) illustrates the purpose of business is value creation for all participants. Therefore, the broader contexts that embed participants or stakeholders need to be placed in the foreground, so that value creation can be better captured and distributed. Second, social sciences carry the potential to tackle societal grand challenges, such as climate change, aging society, or healthcare, to name a few (George, Howard-Grenville, Joshi, & Tihanyi, 2016). We suggest that incorporating contexts, especially the peculiar emerging economies context, may uncover novel approaches in dealing with societal grand challenges. Take the digital economy as one example. Today, mobile internet, big data are changing the way of our lives and their implications are still unfolding. WeChat from China became the 'One APP' company that offers a multitude of applications beyond the existing APP companies in the advanced economies (New York Times, 2016). The power of emerging economies lies in that it offers the experimental lab where firms can try endless and novel

ideas. This trial-and-error approach can challenge the prevailing paradigm, and emerging market firms can enhance their competitiveness in the game of global competition. Hence, contexts may offer generative properties to tackle the societal grand challenges faced by human beings and our society now and in the future.

Third, the recent micro-foundation movement in strategy and management received significant attention (Felin, Foss, & Ployhart, 2015). It focuses on utilizing the micro-level social mechanisms, especially the psychological factors and social cognitive perspectives to explain the macro-level aggregated phenomenon. We suggest that context may play an important role in combination with micro-foundation movement. For instance, ambiguity is a key concept in decision making. The conventional wisdom is to reduce ambiguity to make decisions. However, one recent study by connecting West and East empirically found that Chinese leaders can use the ambiguity of poetry as the source of intelligence in their leadership practice (Xing & Liu, 2015). We believe there are rich research opportunities in the micro-foundation literature to combine contexts. Last but not least, from a methodological perspective we recommend using qualitative research method to capture the complexities and dynamics of context. Especially, we embrace the pluralism and beauty of qualitative method to leverage the explanatory potential of qualitative research (Cornelissen, 2016) in international business and management. One recent study used storytelling research method and suggested a typology of servitization strategies when manufacturing firms from emerging economies venturing into advanced economies through mergers and acquisitions (Xing, Liu, Tarba, & Cooper, 2016a).

Concluding remarks

2016 witnessed a number of daunting changes in the global world we are living, and 2017 is facing higher levels of uncertainty, ambiguity and complexity. The Brexit is still searching for the appropriate way-out while the unfolding process mirrors the divide between ‘elite group’ and ‘general population’. Donald Trump became the President-Elect for USA and this was perceived as the potential force to obstruct globalization to certain extent. The recent referendum defeat in Italy and the troubling banks put continental Europe into a fragile shape. How can global firms in both emerging and advanced economies better integrate local and global resources and build capabilities to deal with global risk and uncertainty? How can global enterprises become more resilient by leveraging the advantages of emerging markets and advanced economies in today’s turbulent and unpredictable environment? Perhaps examining the role of context and leverage the power of context may shed some revealing lights on addressing these global challenges. We invite other scholars and practitioners to join this debate.

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